MR. ALDRICH'S REPORT

BY ALBERT S. BOLLES

ANY reader of Mr. Aldrich's report is fully justified in distrusting his disinterestedness because of the method of investigation adopted by the monetary commission under his leadership. In all previous investigations of a similar character the commission, or committee of inquiry, has invited assistance from every quarter. To any one who had a fact or idea, a suggestion or criticism to contribute to the common fund of desired information, investigators have lent a patient and courteous ear. But the monetary commission from the beginning to the present has never had a session to which the public have been invited for presenting their views. Its inquiries have been narrowly confined to bankers, as if they were the only persons worthy to appear and be heard. The great public, who have a much wider interest in the problems before the commission by reason of their number and the magnitude of their business, have been absolutely ignored. And even the few bankers who were summoned to meet the commission in hotel parlors and other quiet places, away from the open track of men, were bankers of known views; and thus at all times the commission, under the domination of its chairman, has been at work with a preconceived purpose, which is artfully concealed in the most elaborate and intricate system of money and banking ever wrought out and presented for the consideration of any people. We have conversed with many bankers who have carefully studied it, but while saying they thought it contained something that would be helpful to them also admitted their failure to master the "suggested plan."

Another unpleasant feature of the report is the great part openly played by its chairman. The matters that had chiefly interested him during his long career as legislator, and

his method of dealing with them, had furnished him with no adequate preparation either of mind or temper for his final task. Yet to all intents and purposes he has been the entire commission. In due time Mr. Aldrich's "Suggested Plan for Monetary Legislation" appeared, which, with a few modifications, has been accepted by the other members of the commission. Mr. Aldrich seems to be proud of his achievement; the other members seem to be content with the part they have played of appearing on the stage and disappearing therefrom at the nod of their chief. Probably the unusual compensation they have received, with comfortable and comforting travels abroad and at home in seeming search for ideas, has done not a little to reconcile them to their sphere of inglorious inactivity. Whatever the truth may be, the like is without a parallel in the long history of Congressional inquiries by commission.

What, then, were the great problems before the commission and how have they been solved? There was a banking problem and a currency problem. What was the banking problem and what has the commission done in the way of solving it?

As we all know, a portion of the national bank deposits is kept by law as a reserve. With some bankers this was one of the most objectionable features in the act when first considered in committee and afterward by the two houses of Congress; on the other hand, conservative bankers regarded this as one of the best features of the law. The adventurous bankers were opposed, declaring that they knew better than the Government how much reserve they ought to keep. They talked then as they talk to-day, and the same spring was at the source of their contention—profit. The battle long continued until a compromise was struck of permitting banks in the smaller and more numerous places to keep a part of their reserve with one or more banks in larger places. A large part of this legal reserve flows into the national banks in the central reserve cities—New York, Chicago, and St. Louis, the New York banks obtaining the much larger share.

Of course no bank keeps the reserves of other banks for a philanthropic purpose. It would not take their reserves if it could not use them and thereby earn a profit—a fact known by lenders when parting with them. There is only one way in which the receiver, so he reasons, can

prudently use them—lend them on call. By lending them in this manner, theoretically the lender keeps them within control and can obtain their immediate return. But, as we all know, whenever there is a general demand by owners for these reserves and calls are made by reserve-keepers for them, they cannot be had for the good reason that borrowers cannot borrow money from any other source to repay them. Reserve-keepers then have the alternative either to sell the collateral held as security, in which case the stock-market rapidly falls, resulting often in panic; or, to save their borrowers and perhaps themselves from loss, hold their collaterals and by cutting off discounts from the commercial class replenish their reservoir from the supply needed by commercial borrowers. With the supply thus obtained reserve-keepers are able to return the reserves demanded. Again and again has the commercial class been thus sacrificed to save the call-loan borrower. Every autumn almost the scare rises from the probable or actual demand of reserve-keepers. They tell us the money is needed to move crops and at once proceed to blame the currency system because there is not more money afloat which they can use. But why should the Government or the currency system be blamed for a difficulty entirely of bank creation? Banks know, or have every reason to believe, when they take these reserves and lend them, that they will be demanded; and that the condition of things which will lead one bank to demand its reserve is general and will lead every other bank to do the same thing. Banks know, for the experience has been repeated so often, that a general call or demand for balances is likely to occur next autumn and the autumn following and so on indefinitely. Knowing this, and bankers know nothing better, the commission's task was to find some way of keeping more of these reserves at home. This is what every one has said ever since he understood the consequences of sending them to New York. It requires no large measure of wisdom to perceive that if deposits are sent there from time to time and then a large portion is suddenly recalled trouble must inevitably follow. Therefore they must not be sent; or, if they are, must be withdrawn in a different manner.

How does the commission propose to check the flow of these reserves to the national banks in the central reserve cities? Mr. Aldrich has been most careful to do nothing

to lessen the flight of a single dollar. This evil, which is so apparent and has been admitted again and again by bankers and others on many occasions, Mr. Aldrich leaves untouched. And for the best reasons from one point of view. It would lessen the profits of those banks if any considerable portion of this reserve money were permanently withdrawn.

Mr. Aldrich, however, does present a partial solution—the creation of a vast central banking association of which all the national banks will be members. When they wish the return of their deposits at times and in quantities that will inconvenience the central reserve banks, instead of calling for them they are to turn over the paper they intended to discount to this central association. By this method they will relieve the central reserve banks from the embarrassment of returning deposits which they do not have and cannot easily obtain, while the banks that sent them will be relieved from embarrassment caused by their customers through the kindly action of the central association which will take care of them. In other words, it is proposed that the country banks shall join the other banks in creating a central association whereby the central reserve banks will be enabled to retain their grip more firmly on the reserves of the country banks. If this plan were adopted we do not believe that the country banks would long remain in ignorance of the losing game to themselves. They would soon discover that something had happened to them to diminish their profits. Had their deposits been returned, which they were free to use, they would have loaned them and obtained full interest; deprived of them, they would discover their loss in the way of profit, except the profit paid by the central bank—a much smaller sum than would have been otherwise obtained. The direct result of this plan, therefore, to the country members would be a distinct loss of profit; and there is no way of making the scheme work out differently unless the banks that retain the deposits are required to pay a higher rate of interest for withholding them.

Another consequence of this plan, if put in operation, has thus far passed unnoticed. At present one of the few effective checks to speculation is the high rate of interest demanded of speculators during periods of unusual demand by the country banks for their deposits. Many who do not understand the real reason for such action by the banks

regard their course as purely mercenary; in truth, it is intended as a check to speculation and serves a good purpose. But if the Aldrich plan were adopted, as the banks would have a firm grasp on their deposits, the annual check to speculation would be less restrained. The Aldrich plan may therefore be rightly regarded as a plan for stimulating speculation, as if the terrific evils springing from speculation, so familiar to all, did not exist or needed encouragement, like gambling or tippling, which the gambling or tippling house keeper believes should be encouraged. That this would be one of the results of a more permanent retention of the deposits in New York there is no room for questioning—a result quite sufficient to condemn the plan among that large class who believe speculation should, if possible, be checked, not stimulated.

Again, it is assumed that the central banking association can use its own credits in the way of issuing notes and accommodate its members by rediscounting their paper. Can its notes be always expanded to the desired extent? To issue these there must be a gold basis, and if the bank needs more gold for this purpose, can it always obtain it whenever desired? Doubtless it is practicable to base bank-note issues on credit to a limited extent, but a limit truly exists and is recognized by every note-issuing bank in the world. But Mr. Aldrich has too glibly assumed that his central association can command gold whenever needed. To get it the bank must borrow or buy it and he has not set forth the conditions under which either thing can be done at times when it may be most needed.

It is also assumed that with this huge capital there will always be a great fund for use, that the reservoir will always contain a vast supply for its members, for this is the very object of creating the fund. This is a fine assumption, but let us look a little further into the probable working of the institution. If the bank keeps a large fund on hand to meet emergencies, then its dividends will be small and its members will complain. If its funds are closely lent, then its note issues will be its chief resource and may be inadequate. Let us also remember that its members are the same banks that now send their reserves to New York, notwithstanding the illegitimate use made of them in order to swell dividends. Will they be less eager for dividends on their stock invested in the central institution? It cer-

tainly cannot closely lend its funds and keep them at the same time; this, as we have seen, is the manipulation which the national banks have been trying to perform, ever since their organization, with their legal reserves and with ill success. The thing cannot be done. The national banks have been trying to utilize every dollar in order to garner greater profits; the central institution must follow a similar course if it is to earn them. But if it is kept strong in order to meet emergencies its dividends will be small and disappointing. If this is to be its policy its members would be just as well off, nay better, if they sent less money to the banks in the central reserve cities and kept more at home. They would lose no more by this, probably less, than by investing in a central institution whose policy should be to keep large resources in order to be able to assist its members during unexpected emergencies.

Mr. Aldrich, therefore, keeps well away from the real difficulty. He would not, if he could, check to the slightest degree the flow of the bank reserves to the central reserve national banks.

Of course the banks dislike to keep any more of their resources inactive than the law or inability to use them requires. But is there no other practical solution of the problem than that proposed by Mr. Aldrich? If there were no other way then, it would be preferable to reduce the amount of legal reserve which a bank is required to keep. For, as we have seen, the reserve thus kept with another bank is not a true reserve; it is, in fact, not kept anywhere; and therefore, if the amount were reduced there would be no sacrifice of safety to the extent of the reduction by the change. But instead of reducing the amount relief can be obtained in another way. The Government might issue a currency bond or note, one say for one hundred dollars in amount bearing 3.65 per cent. interest, or one cent per day, and permit the banks to exchange their bonds for these interest-bearing notes. A bank should be required to pay something more than par for them—a price that would yield them about three per cent., or what the Government must and ought to pay on the money it borrows. In other words, the Government ought to pay the banks for the use of their money as much as it pays others. They are entitled to fair treatment; with this they should, and doubtless would, be satisfied. They would thus receive more income from their

reserves than they receive under the present plan or would receive under the Aldrich plan; their funds would be kept at home where they ought to be; and the banks would be free from the charge, now so often made against them, of aiding unlawful speculation. The notes could be used as currency, if desired, like the seven-thirty notes issued during the first year of the Civil War which served the double purpose of an investment and currency. As the interest could be easily calculated, one cent a day, it would not be difficult to circulate them, for the seven-thirties were passed from hand to hand in making payments. As the amounts proposed are large, one hundred dollars, their use doubtless would be confined to the more important transactions. If, on the other hand, it were desirable to issue them in smaller amounts, they could be returned to the Government and kept by it as security for notes of smaller denominations and bearing no interest.

If the amount of national obligations thus converted into interest-bearing notes were inadequate, the obligations of some of the great railroad corporations might be used, under proper restrictions, for the same purpose. These guaranteed by the Government would have equal currency with the Government issues, while a feasible way exists to protect the Government for thus using its credit.

The other feature of the Aldrich plan, the creation of a new kind of currency, based primarily on an exchange of credits and secured partly by a gold reserve, possesses more merit. There is nothing new about the plan except the machinery prepared for effecting that purpose. Mr. Aldrich prefers, however, to turn over the Government deposits to this institution and involve the national Government as a co-director of its fortunes. Already the national Government is overburdened with duties which are inadequately performed; to be a co-director in such an institution is a most delicate duty which it is poorly fitted to perform. From such an ill-assorted union of national and private interest there is no rational ground at the present time for anticipating good results. The strong tendency would be to sacrifice the national interest to that of members of the institution. The representatives of the Government, whatever might be their wish to serve and protect the public interest, would have neither the time nor the opportunity to acquaint themselves with its affairs nor to direct like the

other directors. They would be at a disadvantage from every point of view; and it is too much to assume that the other directors would not take advantage of their manifest superior position to obtain and maintain undue control. We have not space here to enlarge on the objections to such a union of public and private interest in a central banking institution. Every probability is against fair, disinterested play by the private directors in their game with the Government's representatives.

Another objection to the plan is the manifestly unfair division of profits accruing from the use of the Government deposits. The plan prohibits the payment of any interest on them to the Government; nothing, therefore, is to be received by it directly for their use. Nor is the Government to receive anything in any other way until the happening of several contingencies. The stockholders are to receive first a four-per-cent. cumulative dividend on their investment. Next a contingent fund of $2,000,000 is to be accumulated. The net earnings afterward accruing are to be used in three ways: one-half of them to create a surplus fund until it amounts to twenty per cent. of the association's capital, one-quarter is to go to the Government "as a franchise tax," and the other quarter to the stockholders.

If the bank keeps a large portion of its resources on hand in order to be able to respond effectively to the demands of members, its profits will be small and the Government is not likely to receive much, if anything, for the use of its money. On the other hand, if the bank seeks to be a profitable enterprise and profits are large in consequence of the full employment of its funds, the Government deposits will contribute largely to this result; nevertheless, the Government would receive by this plan only a meager sum compared with a just division of profits. Indeed, its compensation would be so grossly inadequate for the great service rendered that the institution would surely encounter the storm of public indignation as soon as the working of the plan was generally understood. If these deposits are not to be loaned by the association, nothing would be gained by removing them to it; if they are to be loaned, there is no peculiar reason why it should not make a fair division of the profit from loaning them with the owner, the Government. Assuming that the present system of keeping the Government deposits should be radically changed, and that

hereafter they should be so administered as to form a part of the general monetary circulation, there is no reason why the Government should not seek to obtain as much profit from their use by the proposed institution, if having custody of them, as an individual or corporation would seek to obtain from an unusually large and desirable deposit confided to a bank.

One other question it is worth the reader's while to consider. Why have we in this country so many more troubles about our money and banking than those who live in the more important countries of Europe? If their systems are better than ours, why cannot we adapt them to our needs? The true answer is, we are attempting a very different feat from them. We are trying to invent a system from which the last possible dollar of profit can be extracted and yet which will be safe. This is why we have so much difficulty. If we would be content with a little less profit there would be no serious difficulty in discovering a safe and simple system without the smallest need of adopting this amazingly complicated system bearing the name of Aldrich..

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